

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03

H-03 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 PA-04 PRS-01 USIA-15 SAJ-01

NIC-01 DRC-01 AGR-20 /205 W
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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 8669

INFO AMEMBASSY TOKYO

USLO PEKING

AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY BONN

AMEMBASSY ROME

C O N F I D E N T I A L HONG KONG 11293

DEPARTMENT PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN

SUBJ: JAPANESE FINANCIAL RELATIONSHIPS TO CHINA

REF: TOKYO 12183

1. TREASURY REPRESENTATIVE, HONG KONG, TOOK ADVANTAGE STOPOVER
IN TOKYO PURSUE EARLIER DISCUSSION OF JAPANESE CREDIT TO CHINA
(SEE REFTEL) WITH BANK OF JAPAN AND BANK OF TOKYO. INFORMATION IS
SUMMARIZED BY TOPIC.

2. CLEARING ACCOUNT CREDIT. JAPAN HAS HAD PERSISTENT SURPLUS IN
ITS TRADE WITH PRC. GIVEN CLEARING ACCOUNT ARRANGEMENT GOVERNING
PAYMENTS, THIS HAD EFFECT OF INCREASING RMB BALANCES IN BANK OF
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CHINA OWNED BY JAPANESE BANKS. RESULT WAS INTEREST FREE LOAN WHICH

APPARENTLY COULD NOT BE CONVERTED INTO STERLING UNDER THE TERMS OF ITS FIRST ANNUAL ACCORD (AUG. 1972 - AUG. 1973). CONVERSION IS POSSIBLE UNDER THE SECOND AGREEMENT BUT LESS NECESSARY BECAUSE JAPANESE SUPPLIERS ARE PROVIDING CREDIT IN CONNECTION WITH THEIR SALES. IN OTHER WORDS, TO EXTENT PAYMENTS FOR JAPANESE EXPORTS ARE DEFERRED, FEWER RMB NEED BE DEPOSITED BY CHINESE IMPORTER. CREDIT IS THUS PASSED FROM THE BANKS TO SUPPLIERS WHO HAVE THE INCENTIVE, I.E., EXPANSION OF SALES AND ARE EARNING INTEREST.

3. TYPES OF SUPPLIER CREDIT. WHEN PLANTS ARE EXPORTED ON CREDIT, TERMS ARE FIVE YEARS AND COVER 75 PERCENT TO 80 PERCENT OF THEIR VALUE AT A 6 PERCENT INTEREST RATE. (PRESUMABLY INTEREST RATE IS INCORPORATED IN PRICE.) THIS MEANS, ACCORDING TO BANK OF JAPAN, NORMALLY 10 PERCENT DOWN PAYMENT WHEN THE CONTRACT IS SIGNED AND ANOTHER 10-15 PERCENT BY THE TIME FINAL SHIPMENT IS MADE. THEREFORE, PAYMENTS MIGHT BE STRETCHED OVER 7-8 YEARS FROM DATE OF CONTRACT. TRUCKS AND HEAVY MACHINERY ARE SOLD ON 2-3 YEARS TERMS WITH USUALLY 25 PERCENT DOWN. JAPANESE EXPORTER REFINANCES THESE CONTRACTS BY BORROWING 80 PERCENT FROM THE JAPANESE EXIM BANK AND 20 PERCENT FROM COMMERCIAL BANKS. EXPORTER NOT BANKS TAKES RISKS OF NON-PAYMENT AND EXCHANGE RATE CHANGE AND HE MUST BORROW AT 7 PERCENT WHILE LENDING AT 6 PERCENT. THIS MAY BE A SUBSIDY TO EXTENT HE CANNOT INCORPORATE DIFFERENCE IN SELLING PRICE.

4. UNOFFICIAL CHARACTER OF CREDIT ARRANGEMENTS. CLEARING ARRANGEMENT IS BASED ON AGREEMENT BETWEEN JAPANESE BANKS AND FOREIGN ARM OF THE CENTRAL BANK OF CHINA, ALMOST A CORRESPONDENT RELATIONSHIP. SECONDLY, JAPANESE GOVERNMENT THROUGH ITS EXIM BANK SUPPORTS BUT DOES NOT EXTEND CREDIT ITSELF (PROCEDURE ALSO EMPLOYED FOR EXPORTS TO OTHER COUNTRIES). PERHAPS OFTEN EXPRESSED PRC POSITION THAT DEBT WILL NOT BE INCURRED REFERS ONLY TO GOVERNMENT TO GOVERNMENT CREDIT.

5. DURATION OF CLEARING AGREEMENT. CLEARING AGREEMENT IS RENEWABLE AUTOMATICALLY EACH YEAR. (SEE REFTTEL) BANK OF TOKYO INFORMANT BELIEVED IT WOULD BE MAINTAINED INDEFINITELY. THIS CAN ONLY MEAN THAT CHINESE DESIRE AND JAPANESE ARE WILLING PROVIDE SHORT-TERM NO-INTEREST CREDIT TO COVER PRC-DEFICITS WITH JAPAN NOT OTHERWISE CONFIDENTIAL

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FINANCED BY SUPPLIER CREDITS.

6. SIZE OF BILATERAL DEFICIT. SINCE CHINESE EXPORTS ARE RISING MUCH FASTER (90 PERCENT RISE IN FIRST SEVEN MONTHS OF 1973) THAN JAPANESE EXPORTS (59 PERCENT) DEFICIT IS LIKELY TO BE ONLY SLIGHTLY LARGER THAN IN 1972 (\$150 MILLION COMPARED \$120 MILLION), EVEN THOUGH TWO WAY TRADE MAY RISE FROM \$1.1 BILLION TO \$1.9 BILLION. THESE ESTIMATES, BASED ON JAPANESE CUSTOMS DATA, SUGGEST JAPANESE EXPORTS

OF ABOUT ONE BILLION THIS YEAR AND CHINESE EXPORTS TO JAPAN OF ABOUT \$850 MILLION. COMPARABLE 1972 FIGURES ARE \$609 MILLION AND \$491 MILLION. FASTEST GROWING MAJOR CHINESE EXPORTS ARE RAW SILK AND TEXTILES. FROM JAPAN MAIN GROWTH LINES ARE IRON AND STEEL AND MACHINE RY AND TRANSPORT EQUIPMENT.

7. JAPANESE BANKS AND EURODOLLAR CREDITS. JAPANESE BANKS HAVE BEEN DISCUSSING WITH CHINA BORROWING EURODOLLARS FOR 2-3 YEARS WHICH WOULD BE RELENT TO CHINA BUT OBSTACLE IS THAT PRC WILL NOT PAY MORE THAN 6 PERCENT. GIVEN PRESENT EURODAOLLAR RATES THIS TRANSACTION COULD ONLY BE CARRIED OUT AT A PROFIT IF DOLLAR WAS DEVALUED AT LEAST 5 PERCENT VIS-A-VIS THE YEN BY TIME LOAN MATURED.

8. COMMENT: IT WOULD APPEAR THAT THE COMPREHENSIVE FINANCIAL SERVICE THE JAPANESE ARE PREPARED TO PROVIDE PROBABLY MEANS THAT:
(A) CHINA DOES NOT HAVE TO DIP INTO RESERVES TO COVER ITS TRAD DEFICIT WITH JAPAN, AND
(B) THESE CREDIT FACILITIES MAY BE AN IMPORTANT FACTOR-- BOTH AS INCENTIVE AND QUID PRO QUO -- IN CHINESE AWARD OF PLANT CONTRACTS TO JAPAN.
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